

# Ijara

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# Ijara

- Ijara is a contract that involves transfer of usufruct of an asset (eg. Land, property, motor vehicle, equipment) to another party in return for a consideration or rental payment
- Ijara also means selling the benefit or the use of an asset for an agreed consideration
- Ijara can be used as a mode of finance by Islamic Banks : they purchase assets and rent out to a customer for a determined period

# Basic Rules of Ijara

- Transferring use of asset, not transferring ownership
- Lease asset should be valuable, identified & quantified
- Asset must be in ownership of *Lessor*
- Consumables cannot be leased out
- Liabilities of ownership borne by *Lessor*
- Lease is 'Period Specific'
- Lease is 'Use Specific' : Lessee uses the asset only as specified in the Ijara Agreement
- Lessee is *Ameen* : If he acts negligently or misuses, he must compensate the Lessor for any losses

## Expenses for the Lessor (Owner of Asset)

- ✓ Any expenses incurred in acquiring the asset
- ✓ Import
- ✓ Freight or Transport Costs of the asset
- ✓ Customs duty
- ✓ Any loss beyond the control of the lessee
- ✓ All expenses relating to the ownership of the property

## Expenses for the Lessee

- Operational expenses
- Wear and Tear
- Any loss or damage caused to the asset by his misuse or negligence

## Relevant Aspects for the Contract

- The Lessor may transfer the asset to the ownership of the Lessee at the end of the contract either :
  - As a gift / donation
  - Through the final rental payment
  - At a nominal value
- Can the Lessor sell the property to a 3<sup>rd</sup> party during the lease ?
  - If he does, the lease is not terminated but enforceable with the new owner

# Leasing/Ijarah Contract

Conventional Leasing	Ijarah
<p>There are two types of contracts, Financial lease and loan for car financing. Both these contracts contain conditions that are contravenes with the Islamic Sharia'h.</p> <p>Financing lease contains conditions of hire purchase, which is not permissible by Sharia'h.</p> <p>Car financing or loan agreement contains conditions of interest. Interest is considered <b>Riba</b> by Sharia'h</p>	<p>The Ijarah contract does not contain any condition that makes the contract void under Sharia'h perspective.</p>

# Rights & Liabilities of Lessor and Lessee

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p data-bbox="162 436 973 833">In Conventional Leasing Products, the Customer is responsible for all kinds of losses or damages to the Leased asset, irrespective of the circumstances.</p> <p data-bbox="162 951 973 1286">If the insurance company does not compensate the entire outstanding amount in case of total loss, the customer is liable to pay the balance.</p>	<p data-bbox="1006 436 1785 701">All risks pertaining to ownership are borne by Lessor. Customer only bears usage-related risks</p> <p data-bbox="1006 979 1785 1100">Lessor bears the risk of Insurance claim settlement.</p>

# Rentals recovery in case of theft and loss

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>If the Leased Asset is stolen or completely destroyed, the conventional leasing company or Bank would continue charging the lease rent till the settlement of the Insurance claim</p>	<p>Under the Islamic Ijarah, rent is consideration for usage of the leased asset, and if the asset has been stolen, destroyed or temporarily out of order and not in use of Customer, the concept of rental becomes void. In such situations rental is not charged from the lessee.</p>

# Penalty for late payment

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>In most contemporary financial leases, an extra monetary amount is charged if rent is not paid on time. This extra amount is considered Riba and is Haram.</p> <p>This amount is taken by the leasing institution into their income.</p>	<p>Under Ijarah, the Lessee may be asked to undertake that if he fails to pay rent on its due date, he will pay a certain amount to a charity Fund, which will be administered through the Islamic Bank.</p> <p>For this purpose the bank maintains a charity fund where such amounts may be credited and disbursed for charitable purposes.</p>

# Insurance premium

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>Insurance is independent of the lease contract. The insurance expense of the asset is directly borne by the lessee</p>	<p>Takaful / Insurance should be at the expense of the Lessor and not at the expense of the lessee. The Lessor may increase the lease rent to recover any costs incurred by him in connection with the asset. However, as a matter of principal, the cost should be paid for by the Lessor.</p>

# Registration Charges

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>Lessee is responsible for the Registration of Leased Vehicle.</p>	<p>The Leased Asset(vehicle) is registered in the name of the Bank and registration charges are paid by the Bank (Lessor).</p> <p>The Lessor may increase the lease rent to recover any costs incurred by him in connection with the asset</p>

# Purchase of asset

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>Under conventional leasing contracts, the vehicle is automatically transferred in the name of the customer upon completion of the lease period, whether or not he wants to purchase it.</p>	<p>There is not such clause in the Ijarah Agreement that Leased Asset will automatically transfer to Lessee.</p> <p>Separate sale agreement is required to execute sale transaction at the end of lease term.</p>

# Commencement of Rentals

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>In case of Booking of Leased Asset, recovery of Lease installment commence after the payment of cost of Asset to manufacturer/dealer.</p>	<p>In case of Car Ijarah, the recovery of rentals is associated with delivery of Leased Asset.</p> <p>Rental recovery should not be commenced before the delivery of Asset.</p>

# Signing of Lease Contract

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>Lease Agreement can be signed by the Lessee and Lessor any time even if the Leased Asset is not owned by the Customer.</p>	<p>In case of Ijarah, the Ijarah Agreement can not be signed by the Lessor and Lessee unless:</p> <ul style="list-style-type: none"><li>▪ <i>Asset has come in to existence</i></li><li>▪ <i>Assets is in the ownership of the Lessor</i></li><li>▪ <i>Lessor has taken possession of the Asset</i></li></ul>

# Termination before delivery

<b>Conventional Leasing</b>	<b>Ijarah</b>
<p>The customer will suffer loss of interest paid during the booking period because installment commence immediately after payment of cost of asset to the Manufacturer/Dealer.</p>	<p>The loss of customer is only limited to actual loss, if any, suffered by the Lessor on sale of asset in the open market.</p> <p>Since the customer has not paid any rental during the booking period, no other cash loss is expected under Ijarah.</p>